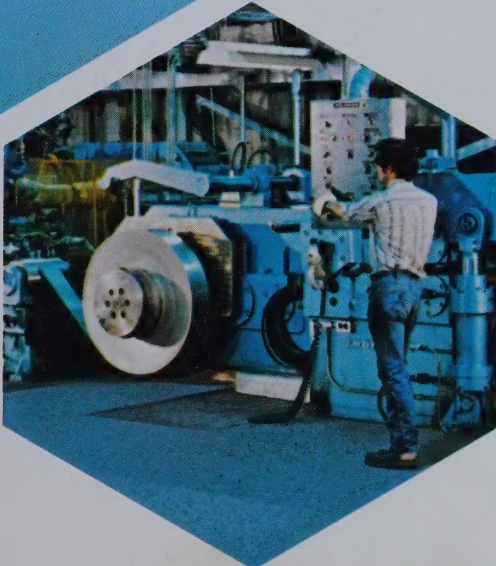
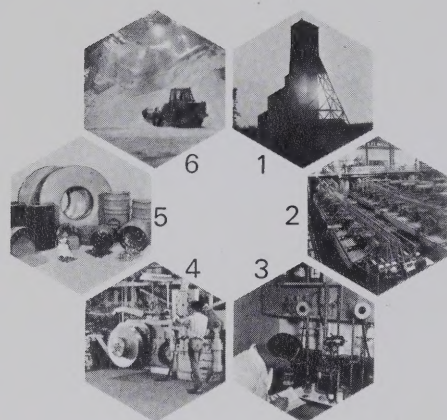


AR22

*Prospect ?
We have had figures*





The photographs on the cover illustrate a variety of the activities of your Company. Clockwise from the top right:

- 1** Over 1,000,000 tons of ore are hoisted annually at Fox Mine.
- 2** Flotation cells at Ruttan Mine make over 200,000 tons of copper and zinc concentrates each year.
- 3** Research on processes for the recovery of metals is a constant job at Sherritt's laboratories in Fort Saskatchewan.
- 4** This new cold mill has increased the capacity and improved the quality of our metal strip production in the rolling mill.
- 5** Sherritt's standard nickel briquettes as well as some of our fabricated metal products – special powders, nickel strip, finished coins and coin blanks.
- 6** Ammonium sulphate fertilizer is a by-product of our nickel refinery. Up to 35,000 tons can be stored here to meet the seasonal demands of agriculture.



Annual and Special General Meeting

2.30 p.m., Friday, April 25, 1975
Commerce Hall in Commerce Court
Toronto, Ontario

CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months Ended June 30, 1974

(with comparative figures for 1973)
(thousands of dollars)

| | 1974 | | 1973 | |
|---|----------------|------------|----------------|------------|
| | Second Quarter | Six Months | Second Quarter | Six Months |
| REVENUE FROM SALES | \$ 48,887 | \$ 99,172 | \$ 21,921 | \$ 42,575 |
| Cost of sales | 29,662 | 59,502 | 14,225 | 27,801 |
| GROSS PROFIT FROM SALES | 19,225 | 39,670 | 7,696 | 14,774 |
| Research expense | 304 | 615 | 371 | 526 |
| Outside exploration expense | 390 | 632 | 231 | 416 |
| Administrative and selling expense | 891 | 1,656 | 762 | 1,310 |
| | 1,585 | 2,903 | 1,364 | 2,252 |
| OPERATING PROFIT | 17,640 | 36,767 | 6,332 | 12,522 |
| Process licensing revenue | 427 | 560 | — | 124 |
| Rentals and other non-operating revenue (expense) | 406 | (439) | 122 | 229 |
| Interest income | 9 | 19 | 165 | 242 |
| Interest expense | 18,482 | 36,907 | 6,619 | 13,117 |
| | 1,293 | 2,553 | 137 | 272 |
| EARNINGS BEFORE WRITE-OFFS AND TAXES | 17,189 | 34,354 | 6,482 | 12,845 |
| Depreciation, deferred development and other write-offs | 2,700 | 5,042 | 1,943 | 3,967 |
| EARNINGS BEFORE TAXES | 14,489 | 29,312 | 4,539 | 8,878 |
| Income taxes — current | 1,704 | 3,017 | 13 | 65 |
| — deferred | 2,050 | 4,350 | (25) | 525 |
| Mining royalty taxes | 2,800 | 4,475 | 610 | 950 |
| | 6,554 | 11,842 | 598 | 1,538 |
| Minority interest in net earnings of subsidiaries | 7,935 | 17,470 | 3,941 | 7,340 |
| | 8 | 16 | 4 | 10 |
| NET EARNINGS | \$ 7,927 | \$ 17,454 | \$ 3,937 | \$ 7,330 |
| EARNINGS PER SHARE | \$.62 | \$ 1.37 | \$.31 | \$.58 |

This statement is subject to year-end audit.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Six Months Ended June 30, 1974

(with comparative figures for 1973)
(thousands of dollars)

| | 1974 | | 1973 | |
|---|----------------|------------|----------------|------------|
| | Second Quarter | Six Months | Second Quarter | Six Months |
| FUNDS WERE OBTAINED FROM | | | | |
| Operations for the period | \$ 7,927 | \$ 17,454 | \$ 3,937 | \$ 7,330 |
| Net earnings | | | | |
| Amounts deducted in arriving at net earnings which did not involve an outlay of funds | | | | |
| Depreciation, deferred development and other write-offs | 2,524 | 5,021 | 1,744 | 3,593 |
| Deferred income taxes | 2,050 | 4,350 | (25) | 525 |
| | 12,501 | 26,825 | 5,656 | 11,448 |
| Issue of Rutlan Mine Bonds | — | — | — | 12,589 |
| Other — net | (21) | (13) | 5 | 143 |
| | \$ 12,480 | \$ 26,812 | \$ 5,661 | \$ 24,180 |

FUNDS WERE USED FOR

Expenditures on capital and deferred assets

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Mining | \$ 1,678 | \$ 2,517 | \$ 6,508 | \$ 14,118 |
| Employee housing and other loans | 442 | 1,441 | 420 | 503 |
| Metal and Chemical, including research | 1,839 | 3,133 | 150 | 218 |
| | 3,959 | 7,091 | 7,078 | 14,839 |
| Reduction in long-term indebtedness | 2,556 | 4,517 | 2,248 | 3,062 |
| Dividends | 2,548 | 4,459 | 1,274 | 2,548 |
| Investments | 1,483 | 1,877 | 327 | 7,118 |
| | 10,546 | 17,944 | 10,927 | 27,567 |
| Increase (decrease) in working capital | 1,934 | 8,868 | (5,266) | (3,387) |
| | \$ 12,480 | \$ 26,812 | \$ 5,661 | \$ 24,180 |
| WORKING CAPITAL | | | | |
| Balance at beginning of the period | \$ 31,713 | \$ 24,779 | \$ 29,254 | \$ 27,375 |
| Increase (decrease) during the period | 1,934 | 8,868 | (5,266) | (3,387) |
| Balance at end of the period | \$ 33,647 | \$ 33,647 | \$ 23,988 | \$ 23,988 |

This statement is subject to year-end audit.

[Handwritten signature]



SHERITT GORDON MINES LIMITED

P.O. Box 28, Commerce Court West, Toronto, Canada

QUARTERLY REPORT TO SHAREHOLDERS

Second Quarter, 1974

REPORT FOR THE SECOND QUARTER, 1974

The overall earnings for the first half of the year were at a record level, well over double the earnings in the first half of 1973. Earnings in 1974 reflect the new production from Rutlan Mine and increased sales prices for all of our products. Net earnings in the second quarter, although lower than the first quarter because of increased write-offs and taxes, were maintained at a high level largely because of the inflated price for copper which prevailed on the London Metal Exchange throughout most of the quarter.

Comparative sales and earnings (in thousands) on a consolidated basis are set forth below:

| | 1974 | | 1973 | |
|---|----------------|------------|----------------|------------|
| | Second Quarter | Six Months | Second Quarter | Six Months |
| Revenue from sales | \$ 48,887 | \$ 99,172 | \$ 21,921 | \$ 42,575 |
| Gross profit from sales | 19,225 | 39,670 | 7,696 | 14,774 |
| Earnings before write-offs and taxes | 17,189 | 34,354 | 6,482 | 12,845 |
| Depreciation and other write-offs | 2,700 | 5,042 | 1,943 | 3,967 |
| Earnings before taxes | 14,489 | 29,312 | 4,539 | 8,878 |
| Income taxes | 3,754 | 7,367 | (12) | 588 |
| Mining royalty taxes | 2,800 | 4,475 | 610 | 950 |
| Minority interest in net earnings of subsidiaries | 8 | 16 | 4 | 10 |
| Net earnings | \$ 7,927 | \$ 17,454 | \$ 3,937 | \$ 7,330 |
| Earnings per share | .62 | 1.37 | .31 | .58 |

The revenue from sales during the quarter was down somewhat from the first quarter of the year because of a decreased volume of nickel and fertilizer sales. A substantial increase in the volume of copper and zinc sales in the first half of 1974 reflects the production from Rutlan Mine, which was just starting up in the second quarter of 1973, and increased production from Fox Mine. All metal sales prices exclusive of nickel were substantially higher in the first half of 1974 than the comparable 1973 period. In the case of nickel, our sales price increased by about 12% which was less than the increase in our production costs. In the first half of 1974 we sold more fertilizer than we produced but because of lower inventories at the beginning of this year our volume of sales was about 20% below the same period of 1973. Nevertheless, continued improvement in the prices realized for our fertilizer products has resulted in increased sales revenue and earnings from this segment of our business.

The higher prices for copper and zinc subsequent to the end of the first quarter had a beneficial effect on our profits for the second quarter of 1974. However, copper prices on the London Metal Exchange dropped sharply during the last half of June and this weakness has continued into July. As a result, the average L.M.E. price for July probably will be lower than in any month since May, 1973. Assuming that this lower copper price continues, our profits in the last half of the year will be less than in the first half.

The level of depreciation and write-offs recorded for the second quarter and first six months of 1974 reflects the inclusion of the Rutlan Mine operation. Earnings from all operations are fully taxable in 1974, whereas Fox Mine earnings were exempt from income tax in the first half of 1973. The Province of Manitoba increased its mining royalty tax from 15% to 23% effective April 1, 1974. Mining royalty taxes have increased at about twice the rate of our profits and it is interesting to note that, in the first half of 1974, the Province of Manitoba obtained as much money from us in royalty taxes as the Company's shareholders received in dividends.

After the Manitoba Government increased the mining royalty tax, it introduced Bill 82 into the Manitoba Legislature. Bill 82 was an abortive attempt to carry out the Government's Mineral Resource Policy which had been presented by the Minister of Mines, Resources and Environmental Management late in March. The legislation would, in our opinion, have been disastrous to your Company and the mining industry in Manitoba. The Government withdrew Bill 82 and has now set up a study group to recommend legislation to effect the Government's Mineral Resource Policy. We are hopeful that, through dialogue with your Company and the rest of the mining industry, the study group and the Government can draft a more practical and sensible piece of legislation. The Federal Government's taxation program for resource industries must be considered in conjunction with any legislation by the Province of Manitoba. Federal and Provincial Governments must work out equitable taxation arrangements so that their legitimate taxation goals can be achieved without causing the development of the mineral resources of Canada to stagnate.

At Rutlan Mine the tonnage milled during the quarter was 860,000 tons assaying 1.09% copper and 1.57% zinc. The operation of the open pit was greatly improved when the tonnage of waste removed from the pit increased to over 2,500,000 tons or about two-thirds higher than the first quarter. Availability of the pit equipment improved. Two new trucks were put into service in June and the new shovel should be operational early in the third quarter. The rock stripping contractor started working during the latter part of the quarter. The mill operation and metallurgy were relatively trouble-free during the first two months of the quarter. In the month of June, problems developed in the copper circuit as a result of treating oxidized ore caused by the warmer weather. This problem is persisting into the third quarter so we have instituted a research program in an attempt to overcome this difficulty in the future. In the underground development, installation of the conveyor structure was resumed on the first stage of the decline and work commenced on the second stage of the conveyor decline. Raising and drifting continued to fall behind schedule because the contractor experienced serious manpower shortages. We also are still short of the qualified mechanics needed to support our overall maintenance program at Rutlan Mine. On the positive side, we have a long-established and very active apprenticeship program for new tradesmen and our training program for mill and pit operators is now producing good results.

The operation at the Fox Mine continued to be highly satisfactory. The mill operated at capacity and treated 251,000 tons at an average grade of 2.35% copper and 1.81% zinc. Overall development work was up to forecast but raising fell behind schedule. The copper circuit

in the mill continued to operate very well and some modest improvements were made in the zinc circuit. A shortage of tradesmen, particularly mechanics, developed during the quarter and created a critical situation in our maintenance program. Every effort is being made to recruit tradesmen in Canada and overseas.

At Lynn Lake the tonnage milled during the quarter was 115,000 tons assaying .85% nickel and .44% copper. This rate of production was about 15% below target. Even with high copper prices and an increase in the price of nickel in June, the mine suffered a small cash loss during the quarter. The low tonnage was caused by a lack of trained cut-and-fill miners and our inability to use the 3,000' - 3,700' orepass due to poor wall rock conditions. Our contractor is critically short of miners and this is jeopardizing the continued operation of the Lynn Lake mine.

The Fort Saskatchewan nickel refinery's annual maintenance shutdown was extended to six weeks because of a shortage of feed material. As a result, nickel production decreased to 3,964,000 pounds which was less than one-half of the nickel produced in the first quarter. Consequently production of cobalt and copper sulphide was at a very low level. Metal production for the balance of 1974 is much more promising as nickel concentrate will be delivered to us under contract from new sources in Western Australia. In the rolling mill various mechanical problems limited the production and delivery of nickel coinage strip to the Royal Canadian Mint. The new cold mill will be starting up during the third quarter. Special powder production continued at capacity to meet an increased sales volume. Production of fertilizers decreased to 77,000 tons mainly because of lower ammonium sulphate production resulting from the extended shutdown of the metals plant. Our new sulphuric acid plant is scheduled to start up in the third quarter.

The engineering and feasibility study for our proposed ammonia and urea expansion at Fort Saskatchewan is now fairly well complete. The revised overall capital cost is presently estimated at more than \$100,000,000. We are actively pursuing every source of supply of natural gas required for this expansion. We are also investigating potential markets for the increased production and developing methods of financing this large expenditure. The authorization of the Alberta Government is required before we proceed with the project. We hope to be able to settle most of these matters in the near future so that a final decision can be made.

The detailed design of the S-C Copper Project pilot plant progressed well during the quarter. Construction of the plant is now under way and will continue into the first half of 1975.

In the Philippines very good progress was made on the construction of Marinduque Mining & Industrial Corporation's Surigao nickel mine and refinery on Nonoc Island. Start-up of the boilers and turbo-generators is scheduled for July and nickel ore should start to enter the plant by the end of the third quarter. We now have transferred 26 of Sherritt's personnel to the Philippines to help start up this new large nickel plant.

DAVID D. THOMAS,
President.
July 29, 1974.

SHERITT GORDON MINES LIMITED

SHERITT GORDON MINES LIMITED

REPORT FOR THE FIRST QUARTER, 1974

AR22

Report for the First Quarter, 1974

and

Remarks by

DAVID D. THOMAS

President and Chief Executive Officer

at the

Annual and Special General Meeting of Shareholders

of

Sheritt Gordon Mines Limited

held at

Commerce Hall, Commerce Court

Toronto, Ontario, Wednesday, April 24, 1974

| | | |
|---|-------------|-------------|
| Average price received | \$ 18.00 | \$ 18.00 |
| Total revenue from sales | 28,800,000 | 28,800,000 |
| Less: Selling and administrative expenses | (2,000,000) | (2,000,000) |
| Operating income | 26,800,000 | 26,800,000 |
| Less: Income tax expense | (1,000,000) | (1,000,000) |
| Operating income after taxes | 25,800,000 | 25,800,000 |
| Less: Dividend income | (1,000,000) | (1,000,000) |
| Income before extraordinary items | 24,800,000 | 24,800,000 |
| Less: Extraordinary items | (1,000,000) | (1,000,000) |
| Net income | 23,800,000 | 23,800,000 |
| Net income per share | 238 | 238 |

SHERRITT GORDON MINES LIMITED

REPORT FOR THE FIRST QUARTER, 1974

With record high prices received for all products except nickel, the revenue from sales, net earnings and earnings per share established quarterly record highs for your Company. The earnings of 75¢ per share were almost three times higher than the 27¢ per share for the first quarter of 1973. This increase in earnings not only reflects higher sales prices but also the output from the Ruttan Mine, which was not operational in the first quarter of 1973, and a substantial increase in production from Fox Mine. The growth in sales and earnings above the last two quarters of 1973 was attributable to increased sales prices for all our products.

The current high level of net earnings is due mainly to the unreasonably high price of copper on the London Metal Exchange. Future earnings will depend largely on the selling prices of copper and, to a lesser extent, zinc, nickel and fertilizers. With present world conditions we find it impossible to predict the level of future prices although it is reasonably certain that our operating costs will continue to escalate. The portion of our profits paid out as taxes will certainly increase for the balance of the year as a result of revised mining taxation in Manitoba.

Comparative sales and earnings (in thousands) for the first quarter of 1974 and 1973 on a consolidated basis are set forth below:

| | 1974 | 1973 |
|---|-----------|-----------|
| Revenue from sales | \$ 50,285 | \$ 20,654 |
| Gross profit from sales | 20,445 | 7,078 |
| Earnings before write-offs and taxes | 17,165 | 6,359 |
| Depreciation, deferred development and other write-offs | 2,342 | 2,020 |
| Earnings before taxes | 14,823 | 4,339 |
| Income and mining royalty taxes | 5,288 | 940 |
| Minority interest in net earnings of subsidiaries | 8 | 6 |
| Net earnings | 9,527 | 3,393 |
| Earnings per share | 75¢ | 27¢ |

A volume of copper sales two and a half times the volume achieved in the first quarter of 1973 and a London Metal Exchange price for copper averaging \$1.04 per pound for the first quarter of 1974 have been the major factors in achieving the record level of sales indicated above. The volume of zinc sales was more than eight times the 1973 level which, when accompanied by the current world price of about 35¢ per pound, has also made a major contribution to the increased revenue. Nickel sales volume remained relatively level with the average price for all forms of nickel increasing from \$1.57 to \$1.71, reflecting a somewhat firmer nickel market. Although the volume of fertilizer sales decreased from the first quarter of 1973, increased sales prices for all products resulted in fertilizer revenues establishing a quarterly record high.

As we pointed out last year, the price we will receive for copper and zinc concentrates is not determined for some months after it is produced and sold. Accordingly the sharply rising prices since the end of 1973 have had a beneficial effect on our profits for the first quarter of 1974.

Earnings from all of our 1974 operations are now fully taxable; December 31, 1973 saw the end of the three-year period of tax exemption on income from new mines.

At Ruttan Mine the mill treated 756,000 tons of ore assaying .95% copper and 1.68% zinc. Although the tonnage mined and milled was about 85% of capacity, the waste stripping was less than two-thirds of our requirements. Extremely cold weather during January and February caused propel shafts to break in the open pit shovels which resulted in poor availability. During the quarter we continued to experience major

difficulties with the engines in the open pit haulage trucks. These engines are being rebuilt to a new specification and now it would appear that the worst of this trouble may be over. An additional shovel is scheduled for delivery in May and two new trucks are to be delivered in late April with a third truck due to arrive in September. To catch up on the backlog of waste stripping we have also awarded a contract for about 1,000,000 tons of rock stripping. During the very cold weather in January and February the copper grade was down to .85% and ore production was only 75% of capacity. The lower copper was caused partially by the milling of marginal ore during the period when the scheduled ore benches could not be mined in the open pit. Production has been at rated capacity since the first of March and the grade of copper has been increasing gradually. The extremely cold weather resulted also in a number of problems in the crushing and conveying areas including freezing in the prime surge pocket and fine ore bin. Corrective steps were taken to eliminate these problems in the mill and the overall metallurgical performance in the quarter was reasonably satisfactory. The new lime feed system and the new copper flotation cells were put into service during the quarter. In the underground development, the conveyor decline was found to be off-line so that the conveyor installation was delayed about two months. The required slashing to correct this misalignment was completed by the end of the quarter. Other development work fell somewhat behind schedule because of the contractor's inability to maintain full crews.

In Leaf Rapids the completion of housing progressed well and we expect to have 80% of our personnel living in the townsite by the end of the quarter. The employment of native peoples under the Manitoba Government's Operation Tawow is proving quite successful. We now have 30 employees working under this program. We have instituted also a program of hiring female employees to work at the Ruttan Mine.

By the end of the quarter, close to 20 women were working at the minesite. We are very pleased with the results of both of these employee programs.

At Fox Mine the mill treated 251,000 tons of ore during the quarter at an average grade of 2.39% copper and 2.19% zinc. The tonnage milled was at capacity and the head grade for copper and zinc was above forecast. Mechanical maintenance in both mine and mill showed a marked improvement although a shortage of mechanics continues to be a problem. The copper circuit in the mill operated very well but zinc recoveries were still disappointing as the problems in the zinc circuit have not yet been resolved. Development work was up to schedule including the advance of the access decline, deepening the mine from the 2,000' to the 2,200' level. However, the mine is presently facing a serious shortage of development miners and efforts are being made to increase the contractor's crews to compensate for this.

At Lynn Lake the tonnage milled during the quarter was 122,000 tons assaying .89% nickel and .44% copper. This is about 10% below our production quota of 1,500 tons per day at a target grade of 1% nickel. However, as a result of increased copper prices, the mine managed to operate at a small cash profit for the quarter. At the end of February, the 3,000' - 3,700' orepass had to be shut down because of poor wall rock conditions. The driving of a new orepass will start in the second quarter. Development work was well below forecast. Our inability and that of the contractor to employ miners is hampering the operation of the mine and the development program.

At the Fort Saskatchewan refinery, nickel production was maintained at 8,790,000 pounds, or about the same level as the corresponding quarter a year ago. The metals plant will be shut down for approximately four weeks during the second quarter for annual maintenance and because of the current shortage of nickel feed materials. Cobalt production was limited by the feed available and amounted to 131,000 pounds. Orders in hand for nickel and cobalt strip and for pure nickel coin blanks will keep our rolling mill operating at capacity through 1974 and into the early months of 1975. Through competitive tender, we obtained a very large order for pure nickel strip and coinage blanks from the Royal Canadian Mint, Ottawa. We are meeting the delivery schedule arranged with the Mint when the contract was signed and we are making every effort to meet the extra shipments they have asked for, in order to fulfill the present strong demand for coins in Canada. In March, The Sherritt Mint received the largest single order in its 8-year history: 47,000,000 coins in pure nickel and 37,000,000 in yellow brass. This large coinage order, together with our current orders for medallions, will keep us busy into January, 1975. We are increasing the Mint's capacity with the installation of three additional high-speed minting presses. The expansion of the rolling mill is continuing and the new cold mill is scheduled to be in operation during the third quarter. The special powder production facilities operated at full capacity to meet the strong sales demand for this specialty market. Demand for fertilizers continued high, resulting in low inventory levels throughout the quarter. Total production was at capacity

reaching 97,000 tons, somewhat higher than a year ago. Construction of the sulphuric acid plant and the 20,000-ton ammonia storage facility is progressing as scheduled. These additional installations when completed later this year will help to increase our production and sales of fertilizers in Western Canada.

The design of the S-C copper pilot plant at Fort Saskatchewan is proceeding on schedule, with construction planned throughout this year. By this time next year, we expect the pilot plant to be ready for the testing of the new copper process, developed jointly with Cominco.

In the Philippines the construction of the Surigao nickel mine and refinery on Nonoc Island continued to progress well despite some shortages of construction materials. Marinduque Mining & Industrial Corporation expects to begin startup operations of the nickel refinery in the third quarter of this year. (Incidentally, today's market price for Marinduque's capital stock is over five times the price we paid for our shares.)

As stated in the annual report, the nickel project of P.T. Pacific Nikkel Indonesia is faced with the sharply increased price of oil and the rapidly increasing costs of construction. Under these circumstances Sherritt's continued participation in this project is in doubt.

* * * * *

I would now like to make a few comments concerning the Manitoba Government's Mineral Resource Policy and the proposed changes in mining taxation. As there has not yet been any legislation tabled, most of my remarks must be of a somewhat general nature. First of all, we do not find very much to object to in the six policy objectives laid down in the statement presented by the Minister of Mines, Resources and Environmental Management. Of course we can quarrel with some of the words used and may take sharp exception to the means the Government employs to achieve these objectives.

We are pleased that the Government intends to treat existing mines differently from the undeveloped mineral resources that are still owned by the Province. We believe that it is essential on the part of any government to be fair and equitable to mines that have already been discovered. Shareholders have made investments, lending institutions have made loans, customers have made contracts, management and employees have used their experience and expertise to establish the existing mines. It would be neither fair nor just for any government to radically change the rules which were relied upon in the decisions made by all these people who have been responsible for the development of the mining industry in Manitoba. On the other hand any provincial government is completely at liberty to change the rules concerning the discovery and development of future mines. If any company or individual does not like the new rules set up by government they have the right to cease their exploration activities in the province and shift their efforts and expertise to other areas.

We are also pleased that the Manitoba Government does not intend to levy a basic percentage of sales royalty to every pound of metal produced. This type of levy ignores the taxation principle of "ability to pay", making no distinction between inflated or deflated sales prices, or high or low costs of production. British Columbia has proposed just such a levy on its mining industry at a rate of 5% of all sales proceeds. It is interesting to note that had Manitoba followed a similar course we would have been forced to close down our Lynn Lake operation before the end of the second quarter.

The Manitoba Government does propose to introduce "a new system of volumetric taxation" which will give the Province a percentage of any price increases beyond basic levels. These basic levels are to provide for a reasonable return on original investment capital and are also to take into account rising costs of production and apparently are to recognize these factors on a mine by mine basis. If such a system could be established it would in effect represent an excess profits tax. In the present environment we do not disagree with such a concept in theory, provided equity is maintained, and proper recognition is given, not only to the original capital investment, but also to the sharply rising costs of production and construction due to the world-wide pressure of inflation. However, though the theory of such an approach may seem appropriate, we are concerned that such a tax would be so complex as to be unworkable and inequitable in practice.

We are also not opposed to the principle of joint venture operations with the Manitoba Government on new exploration activities. If you can accept the principle that a government has the right to invest taxpayers' dollars in a high risk business then in our opinion

the joint-venture approach is the best way for any government to participate in the future development of its mineral resources.

Now let me tell you a few places where we disagree with the proposed Manitoba policy. The complete right to change royalties and taxes by the Lieutenant-Governor-in-Council places undue and unfair power in the hands of Cabinet. Despite our approval of joint ventures, the statement that all future exploration or development will be subject to the review of a public agency conjures up visions of red tape and delays that might well force us to move our exploration activities away from Manitoba.

We have told the senior members of the Manitoba Cabinet that in our opinion a tax based on profit is the best way for Manitoba to increase its revenue from the mining industry. In the spring of 1973 the Manitoba government estimated revenue from the Mining Royalty Tax at under \$6,000,000. With increased production and higher sales prices during 1973 the profits of the mining companies improved substantially. As a result the actual revenue to the Manitoba government from the Mining Royalty Tax for 1973 increased to about \$19,000,000, or over 300% more than was originally estimated.

The Minister of Finance has estimated mining taxation revenues to be approximately \$30,000,000 in 1974 as a result of changes in taxation and in light of the rising values of minerals. In the case of Sherritt the level of Mining Royalty Tax payable for the first quarter of 1974 at present tax rates already amounts to almost three times the level of taxes payable on our 1973 operations. We would like the Manitoba Government to consider these figures carefully before establishing the changes in mining taxation.

No doubt Manitoba is also studying the new Ontario approach of a tax rate going up sharply with increases in income. Superficially this seems reasonable on the basis of the well known escalating personal tax rates. But personal rates escalate on the basis of "ability to pay" - true enough for personal incomes but not true at all for corporate income. A very large, capital intensive, operation may produce a large number of dollars as profit, but a very low, even marginal rate of return with no "ability" to pay higher tax rates. Conversely a small, high-grade mine earning a very high rate of return would have a much greater "ability to pay" but, under the Ontario formula, a much lower tax rate. This escalated corporate tax rate is plainly not a tax on "windfall" profits -- it is a tax on size and size alone and, with due respect to Ontario, is a retrograde step in any taxation system.

* * * * *

I have become seriously concerned with the number of statements we are seeing in the Press and elsewhere about the huge profits of those monsters - corporations. One would think that these huge profits disappeared into some mysterious realm without contributing to the benefit of the country.

I am sure I do not need to point out to you that a corporation is no more than a piece of paper. It is basically an aggregation of its shareholders in order to gather together the kind of capital necessary for productive effort in our type of economy.

However, I would like to take a brief look at the position of Sherritt as such a monster.

In the last 10 years Sherritt has had a gross income of 660 million dollars. Of this 660 million, 506 million was expended in wages, supplies, purchased material, taxes, freight, interest, etc. - the large majority of which contributed directly to the general economy of Canada. What was left over was 154 million, and 31 million of this was tied up in increased inventory and receivables - an essential part of carrying on an expanding business. This left available cash from operations in the 10-year period of 123 million dollars.

During the same 10-year period Sherritt expended 131 million dollars in new capital plants, all contributing to the productive economy of Canada. You may wonder where the extra money came from. In the same 10-year period our long-term borrowing increased by 33 million dollars, and we obtained 17 million dollars from our shareholders through the issue of capital stock.

The shareholders - the owners who presumably must have swallowed the huge profits, received only 46 million dollars, over half of which was paid to our more than thirteen thousand Canadian shareholders.

Surely Sherritt in this 10-year period has been of enormous benefit to Canada and by no means a monster! We end the period more deeply in debt than when we started and we have a bigger bank overdraft. As you can see we still haven't found that elusive cash share of the monster's profits.

* * * * *

Now let us turn to what the monster is planning for the future.

As you know, we are making a detailed study of a substantial expansion in our fertilizer plants from the present 150,000 tons of ammonia per year to 500,000 tons and from 100,000 tons of urea per year to 400,000 tons. The engineering studies are reasonably complete and we are now reviewing the supply and pricing of the additional natural gas required and the future market demands for these fertilizers.

Our decision to proceed with the expansion will certainly depend on the Alberta Government's natural gas pricing policy. We must consider also whether the many new plants, which have been announced for Alberta, are really to be built, creating an ammonia over-capacity in Alberta similar to the potash over-capacity which prevailed for years in Saskatchewan. These ammonia plants are designed to produce mainly for export.

Our Company has sold its fertilizers on both domestic and foreign markets for the past twenty years. At the present time, about 55% of Sherritt's fertilizers are sold in Western Canada. Canadian farmers have been the main consumers and they have benefited from the relatively low cost of fertilizers produced in Alberta due to the reasonable price of natural gas in the province. Sherritt is certainly short of liquid ammonia. This is one of the major motivating factors of our proposed expansion ---- to be able to fully service the Western Canadian farmer.

* * * * *

SHERRITT GORDON MINES LIMITED and subsidiary companies
CONSOLIDATED STATEMENT OF EARNINGS
For the First Quarter 1974
(with comparative figures for 1973)
(thousands of dollars)

| | First Quarter <u>1974</u> | First Quarter <u>1973</u> |
|---|---------------------------------|---------------------------------|
| Revenue from sales | \$50,285 | \$20,654 |
| Cost of sales..... | <u>29,840</u> | <u>13,576</u> |
| Gross profit from sales..... | <u>20,445</u> | <u>7,078</u> |
| Research expense..... | 311 | 155 |
| Outside exploration expense..... | 242 | 189 |
| Administrative and selling expense..... | <u>765</u> | <u>548</u> |
| | <u>1,318</u> | <u>892</u> |
| Operating profit..... | 19,127 | 6,186 |
| Process licensing revenue..... | 133 | 124 |
| Rentals and other non-operating revenue (expense).. <td>(845)</td> <td>107</td> | (845) | 107 |
| Interest income..... | <u>10</u> | <u>77</u> |
| | 18,425 | 6,494 |
| Interest expense..... | <u>1,260</u> | <u>135</u> |
| Earnings before write-offs and taxes..... | 17,165 | 6,359 |
| Depreciation, deferred development and other write-offs..... | <u>2,342</u> | <u>2,020</u> |
| Earnings before taxes..... | <u>14,823</u> | <u>4,339</u> |
| Income and mining royalty taxes | | |
| - current..... | 2,988 | 390 |
| - deferred..... | <u>2,300</u> | <u>550</u> |
| | <u>5,288</u> | <u>940</u> |
| | 9,535 | 3,399 |
| Minority interest in net earnings of subsidiaries.. | <u>8</u> | <u>6</u> |
| Net earnings..... | <u>\$ 9,527</u> | <u>\$ 3,393</u> |
| Earnings per share | 75¢ | 27¢ |

SHERRITT GORDON MINES LIMITED and subsidiary companies
CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
For the First Quarter 1974
(with comparative figures for 1973)
(thousands of dollars)

| | First Quarter <u>1974</u> | First Quarter <u>1973</u> |
|--|---------------------------------|---------------------------------|
| Funds were obtained from | | |
| Operations for the period | | |
| Net earnings | \$ 9,527 | \$ 3,393 |
| Amounts deducted in arriving at net earnings which did not involve an outlay of funds | | |
| Depreciation, deferred development and other write-offs..... | 2,497 | 1,849 |
| Deferred income taxes..... | <u>2,300</u> | <u>550</u> |
| | 14,324 | 5,792 |
| Issue of Ruttan Mine Bonds..... | - | 12,589 |
| Capital research grants..... | - | 133 |
| Other - net | <u>8</u> | <u>5</u> |
| | <u>\$14,332</u> | <u>\$18,519</u> |
| Funds were used for | | |
| Expenditures on capital and deferred assets | | |
| Ruttan Mine | \$ 469 | \$ 7,449 |
| Fox Mine | 335 | 65 |
| Lynn Lake | 35 | 96 |
| Employee housing and other loans | 999 | 83 |
| Fort Saskatchewan | | |
| · Metal and chemical plants | 1,250 | 51 |
| Research and patents | 44 | 13 |
| Fertilizer marketing warehouses and equipment | <u>-</u> | <u>4</u> |
| | 3,132 | 7,761 |
| Reduction in long-term indebtedness | 1,961 | 814 |
| Dividends | 1,911 | 1,274 |
| Investments | <u>394</u> | <u>6,791</u> |
| | 7,398 | 16,640 |
| Increase in working capital..... | <u>6,934</u> | <u>1,879</u> |
| | <u>\$14,332</u> | <u>\$18,519</u> |
| Working capital | | |
| Balance at beginning of the period | \$24,779 | \$27,375 |
| Increase during the period | <u>6,934</u> | <u>1,879</u> |
| Balance at end of the period | <u>\$31,713</u> | <u>\$29,254</u> |

Sheritt Gordon Mines Limited 1974 Annual Report



The Fort Saskatchewan plant as it appeared in the midst of the fall harvesting season. The new 20,000-ton ammonia storage tank is under construction at the top left and the new 600-ton-per-day sulphuric acid plant with its tall, red and white stack can be seen just above the agridome on the right.

1974 at a glance

| | 1974 | 1973 |
|---------------------------------|---------------|---------------|
| Copper sales — pounds | 101,692,000 | 66,430,000 |
| Zinc sales — pounds | 79,102,000 | 47,251,000 |
| Nickel sales — pounds | 16,142,000 | 13,731,000 |
| Fabricated metal sales — pounds | 4,122,000 | 4,023,000 |
| Fertilizer sales — tons | 353,000 | 396,000 |
| Revenue from sales | \$192,958,000 | \$124,092,000 |
| Net earnings for the year | \$ 23,046,000 | \$ 20,986,000 |
| — per share | \$1.81 | \$1.65 |
| Dividends per share | \$.75 | \$.70 |

Directors and Officers

Directors

| | |
|-------------------|--|
| W. E. P. DeRoche | Chairman of the Board Partner, Blake, Cassels & Graydon |
| Edward L. Donegan | Partner, Blake, Cassels & Graydon |
| Richard D. Ellett | Vice-President, Exploration, Newmont Mining Corporation |
| V. N. Mackiw | Executive Vice-President |
| Plato Malozemoff | Chairman of the Board and Chief Executive Officer, Newmont Mining Corporation |
| J. H. Parliament* | Executive Vice-President, Similkameen Mining Company Ltd. |
| David O. Pearce | Vice-President, Operations, Newmont Mining Corporation |
| David D. Thomas | President and Chief Executive Officer |
| J. E. Thompson | President, Newmont Mining Corporation |

*Appointed February 3, 1975

Officers

| | |
|-------------------|---------------------------------------|
| W. E. P. DeRoche | Chairman of the Board |
| David D. Thomas | President and Chief Executive Officer |
| V. N. Mackiw | Executive Vice-President |
| R. G. MacKay | Executive Vice-President |
| Alan E. Gallie | Vice-President, Marketing |
| Kenneth J. Harvey | Vice-President, Finance |
| Bruce I. Watson | Treasurer |
| W. R. Smith | Secretary |
| Ian A. Shaw | Controller |
| D. J. I. Evans | Assistant Vice-President |
| Robert R. Topp | Assistant Vice-President |

Auditors

Deloitte, Haskins & Sells, Toronto

Solicitors

Blake, Cassels & Graydon, Toronto

Transfer Agents

Canada Permanent Trust Company,
Canada
Morgan Guaranty Trust Company of
New York

Bankers

Canadian Imperial Bank of Commerce,
Toronto
Morgan Guaranty Trust Company of
New York

Divisions

Mining and Milling Division

Lynn Lake, Manitoba R0B 0W0

J. A. MacLellan
Acting General Manager
J. E. Korski
Manager, Ruttan Operations
R. C. McCombe
Manager, Lynn-Fox Operations
G. D. Ruttan
Manager, Geology and Exploration

Metal and Chemical Division

Fort Saskatchewan, Alberta T0B 1P0

H. M. Bilkey
General Manager, Alberta Operations
J. R. Muter
Associate Manager
B. W. Kushnir
Manager, Production Groups
A. H. Lee
Manager, Special Product Groups
W. R. Middagh
Manager, Engineering and Projects Groups

Research and Development Division

Fort Saskatchewan, Alberta T0B 1P0

H. Veltman
Director
M. A. Clegg
Assistant Director

Marketing Division

Alan E. Gallie
Vice-President, Marketing
Toronto, Ontario, M5L 1B1
Rex F. Pearce
Manager, Metal Marketing
Toronto, Ontario, M5L 1B1
J. A. Fraser
Manager, Fertilizer Marketing
Edmonton, Alberta, T5J 2E7

Executive Office

Commerce Court West Toronto, Ontario M5L 1B1

Highlights of 1974

Sales increased to \$192,958,000 and net earnings were \$23,046,000 or \$1.81 per share, once again establishing record highs for your Company. The increases resulted from high sales prices for all products and additional production from Ruttan Mine. Earnings, however, were adversely affected by an unprecedented rise in operating costs throughout the year and by the steep decline in world copper prices during the last half of the year.

Ruttan Mine ran at close to capacity throughout the year and the operation of the open pit showed a steady improvement. The grade of ore in the upper part of the open pit has been lower than we had expected from our exploratory diamond drilling. Underground development fell badly behind schedule. A new mining contractor has been engaged and a complete review of the entire underground mine development program is now under way.

Fox Mine continued to operate steadily with increased production of zinc and copper. Zinc metallurgy improved in the last half of the year.

Lynn Lake production was 30% below forecast and the mine suffered a \$2,000,000 cash loss for the year.

An intensive study is under way to see if production can continue on even a marginal basis.

The Fort Saskatchewan refinery again operated much below capacity because of a shortage of refinery feed but fabricated metal production increased.

Fertilizer demand continued unabated and 1974 was again a record fertilizer year for your Company. Both sales prices and production costs continued to rise.

Fertilizer expansion studies continued and the projected capital cost escalated to \$140,000,000. We have obtained permission from the Alberta Government covering the use of natural gas and are now looking for an associate to participate in the venture.

Sherritt's zinc process would now appear to be more economical than conventional zinc refining.

In the Philippines, construction of Marinduque's Surigao nickel mine and refinery was completed. Startup of the plant is proceeding satisfactorily and the first refined nickel was produced in December.

Report of the Directors



To the Shareholders, Sherritt Gordon Mines Limited

Your Directors take pleasure in submitting this report of your Company's operations for the year 1974, including the audited financial statements.

The year 1974 started well for Sherritt but the rapid decline in the world copper price in the last six months caused the year to end on an ominous note. High sales prices during the year were partially offset by an unprecedented rise in operating costs. Copper and zinc production increased because of a full year's operation at Ruttan Mine and improved output at Fox Mine. Our fertilizer business remained buoyant throughout the year. Fabricated metal production at Fort Saskatchewan expanded but the rest of our nickel operations continued to decline.



David Thomas, President with Executive Vice-Presidents, Gordon MacKay, standing, and Vladimir Mackiw, on the right.

Sales

| (figures in thousands) | 1974 | | 1973 | |
|--------------------------------|--------------|-----------|-------------|-----------|
| Copper | 101,692 lbs. | \$ 81,341 | 66,430 lbs. | \$ 53,065 |
| Zinc | 79,102 lbs. | 28,770 | 47,251 lbs. | 13,733 |
| Nickel | 16,142 lbs. | 29,901 | 13,731 lbs. | 19,973 |
| Cobalt | 304 lbs. | 1,139 | 515 lbs. | 1,519 |
| Gold | 29 oz. | 5,227 | 16 oz. | 1,591 |
| Silver | 749 oz. | 3,822 | 416 oz. | 1,023 |
| Fabricated metal products | 4,122 lbs. | 11,758 | 4,023 lbs. | 9,879 |
| Other, including toll refining | | 1,512 | | 4,749 |
| Metal Revenue | | \$163,470 | | \$105,532 |
| Fertilizers : | | | | |
| Nitrogen | 226 tons | 17,270 | 281 tons | 10,560 |
| Phosphate | 127 tons | 12,218 | 115 tons | 8,000 |
| Fertilizer Revenue | 353 tons | 29,488 | 396 tons | 18,560 |
| Total Revenue from Sales | | \$192,958 | | \$124,092 |

With Ruttan Mine in production for the entire year and increased output from Fox Mine, the volume of our copper sales in 1974 rose to 102,000,000 pounds, an increase of more than 50% over 1973. The price of copper on the London Metal Exchange showed an unprecedented increase during the first part of the year, rising from 91¢ per pound on January 1 to \$1.52 on April 1, followed by unprecedented decreases to 93¢ on July 1, 67¢ on October 1 and 56¢ at year end. The abnormal demand for copper that pushed the world price to an unrealistic, high level in April quickly changed as the world economic situation deteriorated; with demand much less than supply, the world price rapidly dropped to a similarly unrealistic, low level at year end. A 55¢ price level has prevailed during January and the first half of February, 1975. On the other hand, the Canadian price for copper moved over a narrow range in 1974, starting at the first of the year at 74¢ per pound, increasing to a high of 82.5¢ then declining to a year-end

price of 73¢. In January, 1975, because of the low L.M.E. price and decreased demand in the United States, the domestic price was lowered to the current price of 63.375¢ per pound. The domestic price which was well below the L.M.E. price from February, 1973 until mid August, 1974 has been above the world price since that time. Our overall average sales price for copper was 80¢ per pound during 1974, the same average price as we realized in 1973.

Because of the inflationary increases which have occurred in the past two years in operating, energy and capital costs, a realistic price for copper would be close to this 80¢ level. Current depressed prices have forced some mines to close and will discourage new production.

As in the case of copper, because of additional production from both Ruttan and Fox Mines, our zinc sales increased to 79,000,000 pounds, about two-thirds above our 1973 sales. The European producer price for zinc, which is the basis used for our sales of Ruttan zinc to Japan, increased from £300 per metric ton (31.5¢ per pound) at the beginning of the year to £360 (38.3¢) at year end. The Canadian price increased in a similar pattern from 31¢ per pound at the beginning of the year to 37¢ at the end of the year. Zinc prices stayed fairly well in line with production costs. Zinc consumption remained high until late in the year when a decline in the automobile and steel-galvanizing businesses began causing some zinc producers to stock-pile concentrate and metal.

Most of our Fox copper concentrate was shipped to Japan along with about 60% of our Ruttan zinc concentrate. Noranda Mines Limited diverted about two-thirds of our Ruttan copper concentrate to Hudson Bay Mining and Smelting Co., Limited at Flin Flon. Hudson Bay also took the balance of the Ruttan zinc together with all Fox zinc concentrate so that once again a substantial portion of our concentrate production was treated in Manitoba. For 1975, because of the rapid decline in the Japanese economy, we have arranged a further diversion to Flin Flon of a substantial portion of Fox copper concentrate.

The marked increase in nickel consumption in 1973 continued into the

first part of 1974. As a result, a modest shortage of nickel developed with a consequent increase in the free market price through the third quarter. Toward the end of the year consumption fell off sharply but, nevertheless, free world consumption for the year is estimated at 565,000 metric tons compared with 540,000 metric tons in 1973. A continuing decrease in free world consumption, combined with production from new mines, means that nickel is likely to be in oversupply during 1975.

There were three changes in the producer price of nickel during the year; from \$1.53 U.S. to \$1.62 U.S. per pound early in January, then, at the end of June, to \$1.85 U.S. and finally to \$2.01 U.S. at the year's end. Although the price increases for nickel have barely kept pace with the increased cost of production, the forecast oversupply situation may well force some nickel on the market at discounts below the producer price level.

Our coinage business had another good year; we shipped 1,400,000 pounds of pure nickel strip and over 1,600,000 pounds of nickel blanks to four mints for minting six different coins. We have received a three-year contract for a large portion of the Royal Canadian Mint's strip requirements for the new Winnipeg mint. Unfortunately the current labour strike of the Mint's operations will restrict our rolling mill operations until a settlement is reached. Orders on The Sheritt Mint reached a new high and included silver, nickel and brass coins for three countries and medals, medallions and tokens in many different metals for Canadian and overseas customers.

The average price for standard nickel sold during 1974 was \$1.85 per pound compared with \$1.45 in 1973. Nickel sold in fabricated metal form commanded substantial premiums over our standard nickel price.

World demand for cobalt again increased, surpassing 1973 by about

8%. We sold at our usual premium price all our own output and the full quantity of Outokumpu cobalt allotted to North America. There were several price changes during 1974 with an overall increase from \$3.50 U.S. per pound to \$4.00 U.S. We shipped, largely for export, over 100,000 pounds of cobalt in fabricated metal form, including alloys.

The sharp rise in precious metals prices has greatly changed the gold and silver values contained in our copper ores. Sales revenue from this source in 1974 increased by about \$6,500,000 over 1973.

Once again in 1974 we sold all the fertilizer we could produce and shipments amounted to 353,000 tons. Sales prices continued to increase for all products and although some of our production costs also rose sharply, our fertilizer profits reached an all-time high. However, this is only the second year in the last ten that we have received a satisfactory return on the capital invested in our fertilizer business. There was a continued strong demand for food throughout the world and, although the prices of many crops peaked during the latter half of the year, the demand for fertilizers continues to exceed the available supply. We looked after our traditional customers in Canada and the United States at prices well below the excessive levels reached in off-shore markets. Our 20,000-ton ammonia storage tank at Fort Saskatchewan will be serving the Western Canadian farmer this spring.

Earnings and Dividends

| (figures in thousands) | 1974 | 1973 |
|---|-----------|-----------|
| Revenue from sales | \$192,958 | \$124,092 |
| Gross profit from sales | 61,810 | 39,177 |
| Earnings before write-offs and taxes | 53,184 | 32,934 |
| Depreciation, deferred development and other write-offs | 12,571 | 9,234 |
| Earnings before taxes | 40,613 | 23,700 |
| Income taxes | 12,185 | 385 |
| Mining royalty taxes | 5,350 | 2,300 |
| Minority interest in net earnings of subsidiaries | 32 | 29 |
| Net earnings for the year | \$ 23,046 | \$ 20,986 |
| Earnings per share | \$1.81 | \$1.65 |
| Dividends per share | \$.75 | \$.70 |

Production

| (figures in thousands) | | 1974 | 1973 |
|--|------|---------|--------|
| Recoverable Copper in : | | | |
| Ruttan Mine concentrates | lbs. | 59,261 | 33,482 |
| Fox Mine concentrates | lbs. | 36,674 | 32,310 |
| Lynn Lake copper concentrate | lbs. | 1,910 | 2,609 |
| Refinery copper sulphides from : | | | |
| Lynn Lake nickel concentrate | lbs. | 1,273 | 1,289 |
| Purchased feed | lbs. | 1,281 | 2,411 |
| Total Copper | | 100,399 | 72,101 |
| Recoverable Zinc in : | | | |
| Ruttan Mine concentrate | lbs. | 63,520 | 34,261 |
| Fox Mine concentrate | lbs. | 15,582 | 14,119 |
| Total Zinc | | 79,102 | 48,380 |
| Refined Nickel from : | | | |
| Lynn Lake concentrate | lbs. | 5,660 | 7,619 |
| Purchased feed | lbs. | 14,982 | 8,399 |
| Toll refined feed | lbs. | 5,530 | 14,244 |
| Total Nickel | | 26,172 | 30,262 |
| Refined Cobalt from : | | | |
| Lynn Lake concentrate | lbs. | 72 | 119 |
| Purchased feed | lbs. | 338 | 497 |
| Total Cobalt | | 410 | 616 |
| Fertilizers : | | | |
| Nitrogen | tons | 230 | 241 |
| Phosphate | tons | 119 | 121 |
| Total Fertilizers | | 349 | 362 |
| Fabricated metal products including special metal powders (nickel and cobalt products are also included in the production shown above) : | | | |
| Nickel products | lbs. | 3,880 | 3,805 |
| Cobalt products | lbs. | 54 | 36 |
| Alloy, composite and other metal products | lbs. | 521 | 246 |
| Total Fabricated Metal Products | | 4,455 | 4,087 |

Copper and zinc earnings increased significantly, reflecting a full year's production from the Ruttan Mine as well as increased production from the Fox Mine. Although copper prices were very low at year end, the average price for the year was the same as in 1973. Zinc prices strengthened as did prices realized for precious metals. Operating costs rose at an unprecedented rate.

Nickel earnings showed a modest increase mainly due to profit on sales from inventories. Nickel prices increased during the year and sales volume increased moderately. Production of nickel declined due to a substantial drop in toll-refined material and a further reduction in nickel output from the Lynn Lake Mine.

Fertilizer earnings continued to improve during 1974 despite substantial cost increases.

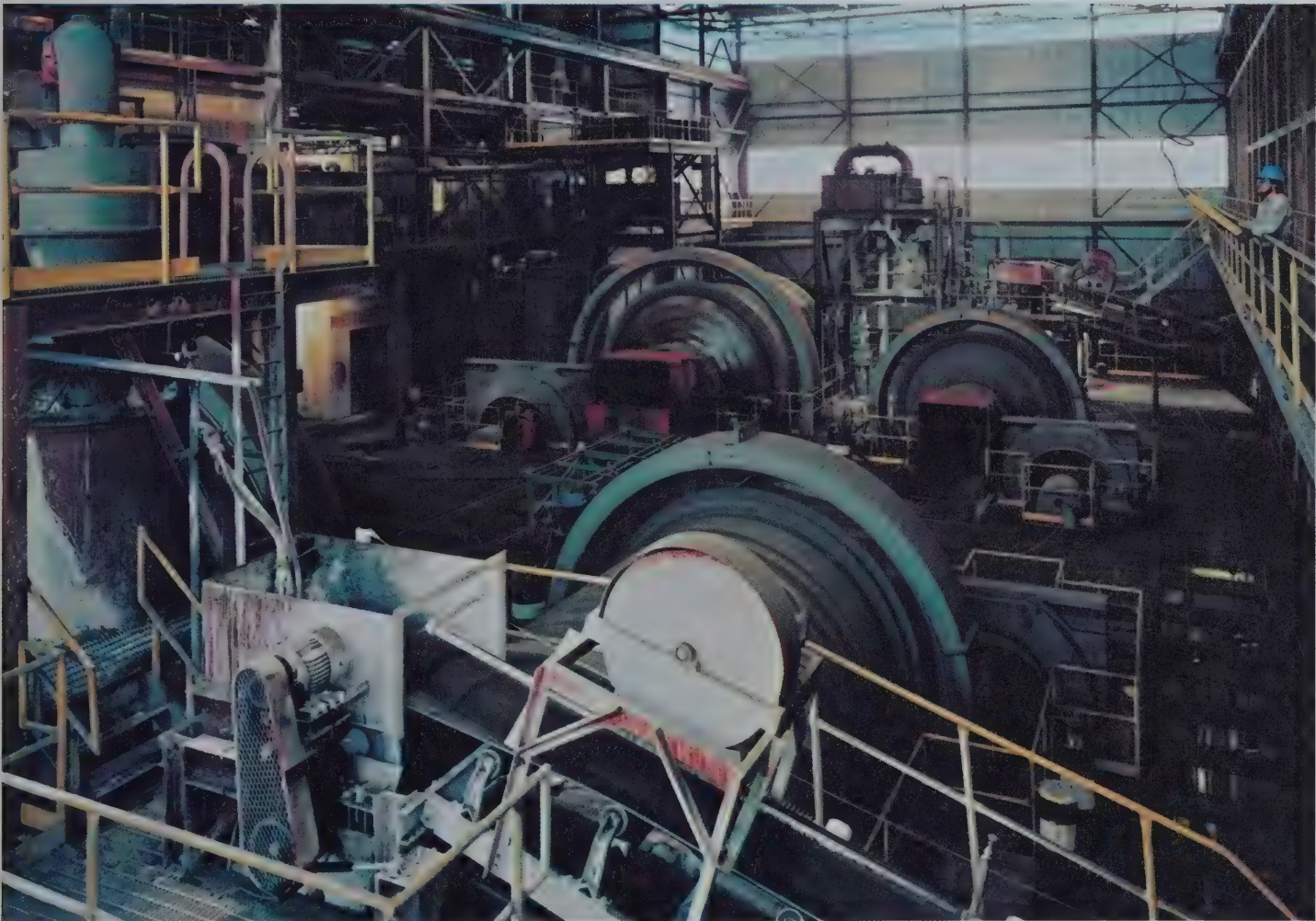
Depreciation and deferred development write-offs increased to reflect a full year of operation at the Ruttan Mine together with the write-down of Lynn Lake fixed assets to an estimated salvage value.

Income and mining royalty taxes for 1974 increased more than sixfold over 1973 because of the termination of the income tax exemption for new mines on December 31, 1973 and an increase in the Manitoba royalty tax rate from 15% to 23% effective April 1, 1974. In 1973 Fox Mine income was exempt for the first three quarters of the year and income from the Ruttan Mine was exempt while it was in production in the second half of the year.

Net earnings for the year of \$1.81 per share again established a record. The quarterly dividend was increased from 15¢ to 20¢ per share for the last three quarters bringing the total dividend payment for the year to a record level of 75¢ per share.

Ruttan Mine Operations

| | 1974 | 1973 including preproduction |
|-------------------------------------|------------|------------------------------------|
| Ore milled (tons) | 3,358,000 | 1,871,000 |
| % copper | 1.07 | 1.14 |
| % zinc | 1.68 | 2.01 |
| Copper in concentrate (lbs.) | 61,934,000 | 36,072,000 |
| Zinc in concentrate (lbs.) | 78,686,000 | 43,113,000 |
| Cash production cost per ton milled | \$8.73 | \$7.57 |



In the Ruttan concentrator two parallel grinding circuits, each having a rod and ball mill, grind 10,000 tons of copper-zinc ore per day.

Despite a number of mechanical troubles with the mobile equipment, particularly in the cold weather in the early part of the year, the operation of the open pit showed a steady improvement during 1974. The total waste rock removed from the pit, including 900,000 tons by a contractor, amounted to over 10,500,000 tons, about 93% of the target for the year. One section of the pit wall on the northwest side shows a tendency to be unstable. To

overcome the problem we propose to flatten the overall slope angle of this section of the wall during 1975 ; this will involve additional waste stripping of almost 1,000,000 tons by a contractor. One new shovel and three new trucks were put into service during the year. Shovel availability was 64% for the year while truck availability was only 55%. We trust that most of the mechanical defects in the equipment have been rectified and now our main efforts

are being devoted to improved personnel training and better maintenance scheduling. To keep the pit in good operating condition, we are scheduling another substantial increase in the tonnage of waste to be stripped from the pit during 1975. The tonnage milled during the year was close to 96% of capacity but the grades of copper and zinc in the mill feed were well below forecast. Considering the low grade of the mill feed,

the metallurgical recoveries of 87% for copper and 70% for zinc were satisfactory. However, during the warm weather, copper recoveries fell below normal. Additional aeration equipment is being installed in an effort to improve this situation before next summer.

The underground development program fell badly behind schedule during the year. Early in the year the conveyor decline was found to be off line and the decline had to be slashed to correct the misalignment. Manpower shortages and low equipment availability seriously curtailed the contractor's performance particularly during the last half of the year and the conveyor installation on the first stage of the decline and the ventilation raise to surface had not been completed by year end. The contract for the second stage of the underground development has been awarded to another contractor, Thyssen Mining Construction of Canada Ltd.

A complete review of the underground mine is now under way. A preliminary re-estimate of the original 1971 program showed that approximately \$40,000,000 more would be required over the next four to five years to bring the underground mine into production. We are now studying various alternate methods for getting into production from underground and believe that some definite cost savings should be attainable.

In the town of Leaf Rapids, the new town centre was officially opened in September. It is a bold, imaginative structure and the design should establish a new standard for the construction of public buildings in northern communities. Although there is still a shortage of single-family residences, we now have 479 of our employees or 85% of our workforce living in the townsite.

The grade of the ore in the upper part of the open pit has continued to be below expectations. In the ore mined to date and the ore we expect to mine in 1975, there appears to be a metal shortage of about 20% below the



The school, gymnasium, curling rink and hockey arena, medical clinic, hotel, retail stores and municipal offices are all part of the town centre at Leaf Rapids. Most of our Rutan Mine employees live in Leaf Rapids.

feasibility projections based on exploratory diamond drill holes. A footwall drift is being driven on the 800' level and we have started an extensive program of underground diamond drilling. Preliminary results do not yet indicate that the metal shortage continues at depth. The ore reserve for

1974 has been adjusted by the tonnage mined together with the shortfall of copper and zinc in the portion of the open pit which has been outlined in detail to date. The underground reserves have not been changed. The figures given below do not include any allowance for dilution.

| Ore Reserve | Tons | % Copper | % Zinc |
|-------------------|------------|----------|--------|
| December 31, 1973 | 49,100,000 | 1.46 | 1.60 |
| December 31, 1974 | 45,900,000 | 1.45 | 1.52 |

Fox Mine Operations

| | 1974 | 1973 |
|-------------------------------------|------------|------------|
| Ore milled (tons) | 1,008,000 | 963,000 |
| % copper | 2.10 | 2.01 |
| % zinc | 1.98 | 2.07 |
| Copper in concentrate (lbs.) | 39,239,000 | 34,631,000 |
| Zinc in concentrate (lbs.) | 18,799,000 | 16,703,000 |
| Cash production cost per ton milled | \$12.70 | \$9.65 |

Production of both copper and zinc in concentrate increased by about 13% compared with 1973. In the case of copper, the tonnage milled, grade of ore, and mill recoveries all showed

moderate increases over the previous year. In the case of zinc, the increase in tonnage milled was offset by a decreased grade of ore and the higher production was entirely attributable to improved mill recoveries obtained in the last half of the year. The method of

recovering pillars in the mine has been improved and operations were quite satisfactory throughout 1974. The access decline to deepen the mine from the 2,000' level to the 2,200' level was completed during the year. Development work was as forecast for the year and included stope development on the 2,100' and 2,200' levels. A critical shortage of skilled tradesmen and miners hampered the Fox operation during the year but the situation improved by year end. The increase of over 30% in cash operating costs results

from the sharp price increases in operating supplies, services and labour along with the high costs associated with labour turnover.

The ore reserve has been reduced by the tonnage mined during the year and reflects additional diamond drilling, particularly below the 2,000' level, resulting in a slight reduction in the overall grade of the remaining ore. There were no new sections added to the reserve during the year. The figures shown below do not include any allowance for dilution.

| Ore Reserve | Tons | % Copper | % Zinc |
|-------------------|------------|----------|--------|
| December 31, 1973 | 11,800,000 | 2.03 | 2.15 |
| December 31, 1974 | 10,700,000 | 1.95 | 2.07 |



Underground at Fox Mine, the shift boss is giving last-minute instructions at the start of a shift. About 150 men work in the mine.

Lynn Lake Operations

| | 1974 | 1973 |
|-------------------------------------|-----------|-----------|
| Ore milled (tons) | 432,000 | 676,000 |
| % nickel | .87 | .84 |
| % copper | .43 | .39 |
| Nickel in concentrate (lbs.) | 5,952,000 | 8,539,000 |
| Copper in concentrate (lbs.) | 3,251,000 | 4,276,000 |
| Cash production cost per ton milled | \$25.74 | \$16.37 |

Production of nickel in concentrate was almost 30% below forecast, showing a gradual deterioration throughout

the course of the year. In the last quarter of 1973 we had transferred a number of our experienced miners to

Fox and Ruttan Mines and turned over most of the mine development and cut-and-fill mining to our mining contractor. Unfortunately the contractor experienced great difficulty in recruiting miners so that development work during 1974 was less than one-half the footage required to bring adequate new stopes into production, and output from the higher grade cut-and-fill stopes was substantially below forecast. Production also suffered because of the failure of the 3,000' – 3,700' orepass during the first quarter of the year. This shortfall in production and the rapidly increasing costs of mining caused a cash loss on the Lynn Lake Mine of approximately \$2,000,000 during 1974.

Although enough ore for at least four years has been outlined by underground drilling, we must increase the mining rate to 1,500 tons per day with a grade of close to 1% nickel to approximate a break-even operation. We would like to keep the mine operating at least until underground miners are required at Ruttan Mine. An intensive study is being undertaken to see if production can continue on even a marginal basis. Since any continuing operation of the mine would at best be a break-even proposition, the remaining value of Lynn Lake fixed assets has been written down to an estimated salvage value of \$2,000,000.

Outside Exploration

Outside exploration was conducted throughout the year in Canada, mainly in Northwestern Ontario. Our basic approach continued to be airborne geophysical surveys followed by ground surveys in geologically favourable areas, using Sherritt's equipment and personnel. Selected anomalies were diamond drilled. In addition, a number of properties submitted by prospectors were examined. A field office was established in Dryden, Ontario to expedite our exploration in that region. Although interesting base metal values were intersected in some locations where drilling still continues, nothing of commercial importance has been found. The total expenditure on outside exploration during 1974 was \$1,349,000.



The new sulphuric acid plant came on stream in September and is producing at rated capacity for our phosphate fertilizer plant and metals refinery.

Fort Saskatchewan Operations

Production of refined nickel during 1974 amounted to 26,172,000 pounds which was 13% below 1973 production and the lowest level of production since 1967. Cobalt production was 410,000 pounds and copper production, in the form of sulphides, amounted to 2,554,000 pounds, both about one-third below the comparable production

figures for 1973. The low production rates resulted from a continuing decrease in nickel concentrate produced at Lynn Lake and a shortage of refinery feed material from other sources. Increased shipments of both nickel concentrate and matte from Western Australia will improve the feed supply situation in 1975. Production of fabricated metal products and special metal powders increased to 4,455,000 pounds compared with 4,087,000 produced in 1973.

The coin shortage in Canada resulted in a strong demand from the Royal Canadian Mint for a supply of

nickel strip and blanks and we recently received a new three-year contract for a large portion of their strip requirements for the new Winnipeg mint. During the year, to meet the increasing demand for nickel strip, we installed a new cold mill and annealing furnace in the rolling mill. The capacity of The Sherritt Mint was also expanded to keep pace with the growing market for foreign coins, tokens and medallions.

Fertilizer production amounted to 349,000 tons, about 4% below the 1973 production. Ammonium sulphate production was down by about 25% from 1973 due to the decrease in concentrate feed to the nickel refinery. The resultant surplus ammonia was sold for direct application and also used for the production of additional urea. Phosphate fertilizer production was at the same level as in 1973 although limited by the availability of sulphuric acid and phosphate rock during the first three quarters of the year. Our new 600-ton-per-day sulphuric acid plant came on stream in September and operated at designed capacity throughout the remainder of the year. Construction of the new 20,000-ton ammonia storage tank should be completed by March, 1975 enabling Sherritt to increase sales of ammonia to Western Canadian markets.



Fertilizer Expansion Program

Throughout the year extensive engineering and financial studies were conducted on a major expansion of our nitrogen fertilizer capacity at Fort Saskatchewan. The proposed expansion would involve the construction of a new 1,100-ton-per-day anhydrous ammonia plant and urea synthesis and granulation plants of 1,000-ton-per-day capacity. Saleable products per year would be 170,000 tons of ammonia and 330,000 tons of urea.

Construction estimates have steadily increased throughout the year although there have been some current indications of less severe escalations in capital costs. Total capital requirements for the program now are estimated at about \$140,000,000.

Originally it had been contemplated that the new fertilizer plants would be financed entirely by Sherritt but, with the much higher capital requirements, it now appears advisable to bring in an associate as either an equity or joint venture participant.

Large quantities of natural gas will be

consumed in the new ammonia plant. Although arrangements for the supply of gas have not yet been finalized, Sherritt has been exempted by the Alberta Government from certain statutory requirements covering the utilization of the required gas.

Current feasibility studies are quite encouraging and confirm the viability of further expansion in the fertilizer business. Our present fertilizer operations are very satisfactory and represent a welcome counterbalance to the currently depressed state of our mining operations.

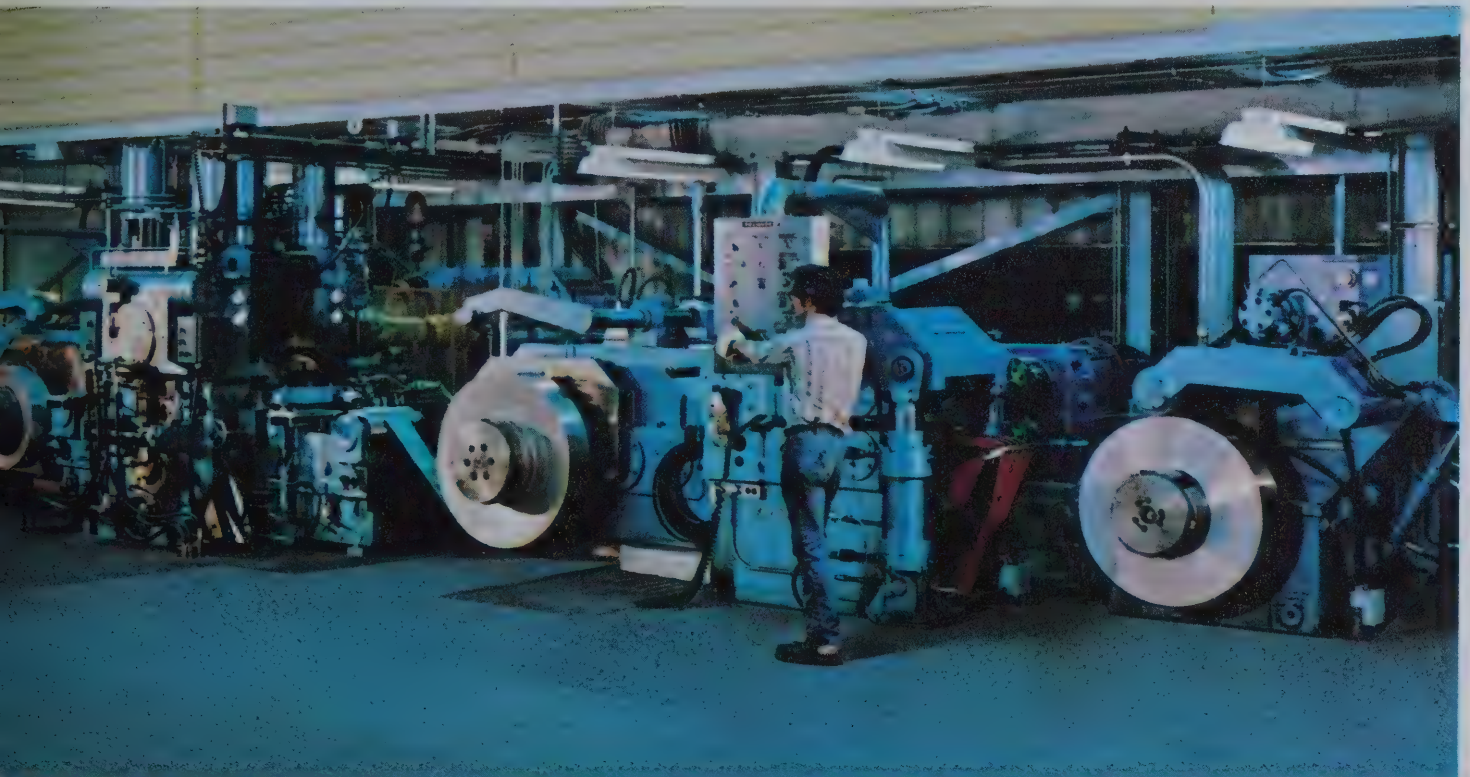
Research and Development

Research expense increased to \$1,475,000 during 1974, about 40% higher than in the previous year. Increased activities at Fort Saskatchewan included the construction of the S-C Copper Project pilot plant, a joint development venture between Sherritt and Cominco supported by the Federal Government under the Program for Advancement of Industrial Technology (PAIT). Detailed design of the pilot plant was completed in 1974, good progress was made on its construction, and operations are scheduled to start by mid 1975.

Sherritt's direct pressure leaching process for the treatment of zinc concentrate is being carefully reviewed in the light of current economic conditions. An independent, current evaluation has indicated that the use of pressure leaching to dissolve zinc and to convert sulphur to its elemental form could be a substantial economical improvement over conventional zinc refining. Sherritt's zinc process is now available for licensing.

Development of new Sherritt nickel and cobalt products was highlighted by the successful production of atomized alloy powders, suitable for powder rolling, in the new semi-commercial facility constructed and tested under a program supported by PAIT. Further development of these powders towards commercial production will continue in 1975. A new low-cost coinage metal has been developed for use in lower denomination coins which must have low intrinsic value to resist meltdown during periods of abnormally high metal prices. Consisting of a combination of iron and pure nickel, Sherritt's Nickel-Bonded-Steel has the fine coining characteristics of pure nickel at a substantial saving in cost. The small pilot plant used for the development and evaluation of this new material is being

An overall view of the new Fröhling 4-hi reversing cold mill shows one of the major improvements we have made in the rolling mill at Fort Saskatchewan.



expanded into the first stage of commercial production. We have continued our research work on dispersion-strengthened materials, on thermal spray powders for application in high-temperature abradable seals, and on fine cobalt powder for use in the sintered carbide industry.

Capital Expenditures

Capital expenditures in 1974 decreased to \$14,527,000, about 30% below 1973. Details of the expenditures are set forth in the Statement of Changes in Financial Position. The decrease was due to Ruttan Mine surface plant construction being completed in 1973. We expect expenditures to rise in 1975 because of an expanded underground development program at Ruttan. In addition, if we should proceed with our proposed ammonia-urea expansion, capital expenditures in the latter part of 1975 would increase substantially.

Personnel

At the year end the Company had 2,526 employees compared with 2,341 at the end of 1973. Distribution was as follows :

| | 1974 | 1973 |
|---------------------------------|-------|-------|
| Lynn Lake, Fox and Ruttan Mines | 1,460 | 1,306 |
| Fort Saskatchewan and Edmonton | 1,018 | 994 |
| Toronto | 48 | 41 |

In the Mining Division the total number of employees increased as Ruttan Mine became fully staffed and more development is being undertaken by our own crews rather than relying on outside contractors. Our recruiting efforts for tradesmen in Canada and abroad were successful and by year end there were strong indications that our labour force was stabilizing.

Although we were only in the second year of a three-year union contract with

Marinduque Mining & Industrial Corporation— Surigao Nickel Project



An aerial view of the nickel refinery on Nonoc Island in the Philippines which produced the first pure nickel in December, 1974.



The water from the Sabang River is treated in this plant to meet the needs of the refinery ; part is purified for domestic consumption.

Local 5757, United Steelworkers of America, we adjusted our rates of pay, extracontractually, in order to maintain competitive labour rates.

At Fort Saskatchewan our workforce increased slightly, reflecting the introduction of a shorter standard work

week and the expansion of the fabricated metal product section. An extracontractual wage increase was granted to Local 530, International Chemical Workers' Union.

By the end of the year, 28 employees, accompanied by their families, were located in the Philippines on assignment to Marinduque Mining & Industrial Corporation. They are training operating personnel and assisting in the startup of the Surigao nickel refinery.



Sabang Dam and reservoir on neighbouring Donagat Island is the source of water for the refinery and town at Nonoc. Water is pumped 15½ miles through a 30"-diameter pipeline.



A view of the nickel recovery section of the refinery. When operating at capacity, 75 million pounds of nickel will be added to the world's annual supply.

Overseas Interests

Marinduque Mining & Industrial Corporation in the Philippines completed construction of the Surigao nickel mine and refinery during the year. Laterite ore was treated in the plant during the latter half of the year and the first refined nickel was produced in December. This is the first commercial production of pure refined nickel directly from laterite ores anywhere in the world. The construction and initial

startup of this large and complex nickel facility has been quite successful despite the usual number of mechanical and electrical defects in new plant and equipment. During 1975 the refinery is expected to attain its full, designed capacity of 68,400,000 pounds of pure refined nickel, and mixed sulphides con-

taining 6,600,000 pounds of nickel and 3,300,000 pounds of cobalt. As part of the financing arrangements for the project, Marinduque has agreed to certain restrictions on the payment of cash dividends over the next few years. Sherritt has agreed to postpone its royalties during any period when Marinduque is prevented from paying cash dividends.

The development of the nickel project of P. T. Pacific Nikkel Indonesia, in which Sherritt has an 11% interest, is being reassessed in view of escalation of capital costs and high oil prices. The participants in the venture have been carrying on negotiations which may lead to equity participation and senior financing with the Indonesian Government and other international financial institutions. Because of its commitments in other areas, Sherritt does not anticipate any financial participation in the project beyond 1974.

Subsequent to the year end, the Company received with regret the resignation of Mr. Peter A. Cain as Vice-President, Mining and as a member of the Board of Directors. Mr. Cain contributed to the Company's growth during a period of almost twenty years and managed the development and construction of Fox and Rutan Mines.

The Directors wish to extend their sincere appreciation to our employees, who contributed significantly to the 1974 operations in spite of an increasingly cloudy economic and political climate for the mining industry in Canada.

On behalf of the Board,

David W. Thomas
President.

Toronto, Ontario, February 25, 1975.

Sherritt Gordon Mines Limited AND SUBSIDIARY COMPANIES

UNDER THE BUSINESS CORPORATIONS ACT (ONTARIO)

CONSOLIDATED BALANCE SHEET December 31, 1974

(with comparative figures for 1973)

| Assets | 1974 | 1973 |
|---|---------------|---------------|
| Current | | |
| Cash, including interest-bearing deposits | \$ 217,000 | \$ 91,000 |
| Accounts receivable | | |
| Trade | 21,534,000 | 42,739,000 |
| Other | 1,954,000 | 1,310,000 |
| Inventories (note 3) | 42,202,000 | 17,545,000 |
| Insurance and other prepaid items | 410,000 | 104,000 |
| | 66,317,000 | 61,789,000 |
| Fixed (note 4) | | |
| Property, plant and equipment | 160,851,000 | 151,948,000 |
| Less accumulated depreciation | 77,103,000 | 70,559,000 |
| | 83,748,000 | 81,389,000 |
| Unamortized development costs | 23,495,000 | 25,431,000 |
| | 107,243,000 | 106,820,000 |
| Other | | |
| Employee housing and other loans | 5,272,000 | 3,998,000 |
| Investments at cost less amounts written off (note 5) | 10,406,000 | 8,277,000 |
| Patents at cost less amounts written off | 605,000 | 529,000 |
| | 16,283,000 | 12,804,000 |
| | | |
| | \$189,843,000 | \$181,413,000 |

Auditors' Report

To the Shareholders of Sherritt Gordon Mines Limited :

We have examined the consolidated balance sheet of Sherritt Gordon Mines Limited and its subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE, HASKINS & SELLS,
Chartered Accountants.



Liabilities

1974

1973

Current

| | | |
|---------------------------------|-------------------|-------------------|
| Bank indebtedness (note 6) | \$ 7,841,000 | \$ 12,525,000 |
| Accounts payable and accrued | 15,748,000 | 19,472,000 |
| Income and mining royalty taxes | 2,500,000 | 522,000 |
| First Mortgage Bonds (note 7) | 3,819,000 | 4,491,000 |
| | 29,908,000 | 37,010,000 |

First Mortgage Bonds (note 7)

34,194,000 41,881,000

Deferred Income Taxes (note 8)

22,420,000 12,695,000

Minority Interest

32,000 29,000

Shareholders' Equity

Capital

| | | |
|---|--------------------|-------------------|
| Capital stock | | |
| Authorized | | |
| 14,000,000 shares par value \$1 per share | | |
| Issued and fully paid | | |
| 12,740,000 shares | 12,740,000 | 12,740,000 |
| Contributed surplus | | |
| Net premium on sale of shares | 25,641,000 | 25,641,000 |
| | 38,381,000 | 38,381,000 |
| Retained Earnings | 64,908,000 | 51,417,000 |
| | 103,289,000 | 89,798,000 |

\$189,843,000 **\$181,413,000**

Approved by the Board :

David D. Thomas, Director

E. L. Donegan, Director

Sherritt Gordon Mines Limited AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS For the year ended December 31, 1974

(with comparative figures for 1973)

| | 1974 | 1973 |
|--|----------------------|----------------------|
| Revenue from sales | \$192,958,000 | \$124,092,000 |
| Cost of sales | 131,148,000 | 84,915,000 |
| Gross profit from sales | 61,810,000 | 39,177,000 |
| Research expense | 1,475,000 | 1,055,000 |
| Outside exploration expense | 1,349,000 | 798,000 |
| Administrative and selling expense | 3,031,000 | 2,752,000 |
| | 5,855,000 | 4,605,000 |
| Operating profit | 55,955,000 | 34,572,000 |
| Process licensing revenue | 1,468,000 | 124,000 |
| Rentals and other non-operating revenue | 561,000 | 522,000 |
| Interest income | 131,000 | 324,000 |
| | 58,115,000 | 35,542,000 |
| Interest expense | 4,931,000 | 2,608,000 |
| Earnings before write-offs and taxes | 53,184,000 | 32,934,000 |
| Depreciation, deferred development and other write-offs (note 4) | 12,571,000 | 9,234,000 |
| Earnings before taxes | 40,613,000 | 23,700,000 |
| Income taxes – current (note 8) | 2,460,000 | 910,000 |
| – deferred (note 8) | 9,725,000 | (525,000) |
| Mining royalty taxes | 5,350,000 | 2,300,000 |
| | 17,535,000 | 2,685,000 |
| Minority interest in net earnings of subsidiaries | 32,000 | 29,000 |
| Net earnings for the year | \$ 23,046,000 | \$ 20,986,000 |
| Earnings per share | \$1.81 | \$1.65 |

CONSOLIDATED STATEMENT OF RETAINED EARNINGS For the year ended December 31, 1974

(with comparative figures for 1973)

| | 1974 | 1973 |
|---|---------------------|---------------------|
| Balance at beginning of the year | \$51,417,000 | \$39,349,000 |
| Net earnings for the year | 23,046,000 | 20,986,000 |
| | 74,463,000 | 60,335,000 |
| Dividends paid – 75¢ per share (1973 – 70¢) | 9,555,000 | 8,918,000 |
| Balance at end of the year | \$64,908,000 | \$51,417,000 |



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1974 (with comparative figures for 1973)

| | 1974 | 1973 |
|---|--------------|--------------|
| Funds were obtained from | | |
| Operations for the year | | |
| Net earnings | \$23,046,000 | \$20,986,000 |
| Amounts deducted in arriving at net earnings which did not involve an outlay of funds | | |
| Depreciation, deferred development and other write-offs | 12,748,000 | 8,922,000 |
| Deferred income taxes | 9,725,000 | (525,000) |
| | 45,519,000 | 29,383,000 |
| Issue of Ruttan Mine Bonds | — | 12,589,000 |
| Capital research grants | 6,000 | 149,000 |
| Other – net | 3,000 | 6,000 |
| | \$45,528,000 | \$42,127,000 |
| Funds were used for | | |
| Expenditures on capital and deferred assets | | |
| Lynn Lake Mine | \$ 280,000 | \$ 323,000 |
| Fox Mine | 1,225,000 | 482,000 |
| Ruttan Mine | 5,293,000 | 15,400,000 |
| Employee housing and other loans | 1,274,000 | 1,913,000 |
| Fort Saskatchewan | | |
| Metal and chemical plants | 5,711,000 | 2,544,000 |
| Research and patents | 550,000 | 127,000 |
| Fertilizer marketing warehouses and equipment | 194,000 | 2,000 |
| | 14,527,000 | 20,791,000 |
| Reduction in long-term indebtedness | 7,687,000 | 7,041,000 |
| Dividends | 9,555,000 | 8,918,000 |
| Investments | 2,129,000 | 7,973,000 |
| | 33,898,000 | 44,723,000 |
| Increase (decrease) in working capital | 11,630,000 | (2,596,000) |
| | \$45,528,000 | \$42,127,000 |
| Working Capital | | |
| Balance at beginning of the year | \$24,779,000 | \$27,375,000 |
| Increase (decrease) during the year | 11,630,000 | (2,596,000) |
| Balance at end of the year | \$36,409,000 | \$24,779,000 |

The accompanying notes are an integral part of the financial statements.

Sherritt Gordon Mines Limited AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1974

1. Principles of Consolidation

The consolidated financial statements include the accounts of Sherritt Gordon Mines Limited and its active subsidiary companies, Sherritt Fertilizers, Inc., Sherritt Gordon Airtransport Limited and Michipicoten Iron Mines Limited.

2. Translation of Foreign Currencies

Transactions in foreign currencies have been translated into Canadian dollars at rates prevailing at the time of such transactions, except that current assets and current liabilities have been translated at the approximate rate of exchange at December 31, 1974.

3. Inventories

| | 1974 | 1973 |
|--------------------------------------|---------------------|---------------------|
| Finished products | \$22,636,000 | \$ 7,213,000 |
| Raw material and material in process | 9,890,000 | 4,752,000 |
| Operating supplies | 9,676,000 | 5,580,000 |
| | \$42,202,000 | \$17,545,000 |

Concentrates sold under contract are valued at estimated net realizable value. Other finished products, raw material, material in process and operating supplies are valued at the lower of average cost and net realizable value.

4. Fixed Assets

| | Property, Plant and Equipment | | | Unamortized Development Costs | Total |
|--------------------|-------------------------------|--------------------------|--------------------|-------------------------------|---------------|
| | Cost | Accumulated Depreciation | Undepreciated Cost | | |
| Ruttan Mine | \$ 41,160,000 | \$ 3,577,000 | \$ 37,583,000 | \$ 16,773,000 | \$ 54,356,000 |
| Fox Mine | 16,955,000 | 4,029,000 | 12,926,000 | 6,722,000 | 19,648,000 |
| Lynn Lake | 21,412,000 | 19,412,000 | 2,000,000 | — | 2,000,000 |
| Metal and Chemical | 81,324,000 | 50,085,000 | 31,239,000 | — | 31,239,000 |
| | \$160,851,000 | \$ 77,103,000 | \$ 83,748,000 | \$ 23,495,000 | \$107,243,000 |

Development costs related to a new ore occurrence are deferred until production commences after which only development costs of a capital nature are deferred.

Ruttan Mine and Fox Mine; depreciation and amortization of the assets of the mines are charged to operations using the unit of production method based on metallic content of the estimated recoverable ore reserves.

Lynn Lake; because of the uncertain life of the mine the remaining Lynn Lake assets have been written down to an estimated salvage value of \$2,000,000. This write-off amounted to \$1,079,000 net of taxes in 1974.

Metal and Chemical; depreciation is provided over the useful life of the assets using an estimated service life of 20 years.

5. Investments at Cost Less Amounts Written Off

| | Shares of Common Stock | Percentage Owned | 1974 | 1973 |
|---|------------------------|------------------|---------------------|--------------------|
| Marinduque Mining & Industrial Corporation | 7,531,902 | 11 | \$ 6,752,000 | \$6,801,000 |
| P. T. Pacific Nikkel Indonesia (including loans and advances) | 2,778 | 11 | 3,600,000 | 1,323,000 |
| Other Companies | | | 54,000 | 153,000 |
| | | | \$10,406,000 | \$8,277,000 |

The quoted market value of the investment in Marinduque shares at December 31, 1974 was \$16,476,000 U.S. Under the subscription agreement with Marinduque the Company has agreed not to sell or transfer any of the shares prior to December 31, 1976.

There is no quoted market value for shares of P. T. Pacific Nikkel Indonesia.

6. Bank Indebtedness

Certain inventories of the Company have been pledged as security for the bank indebtedness.

7. First Mortgage Bonds

| | December 31, 1974 | |
|---------------------------------------|-------------------|--------------------|
| | U.S. | Canadian |
| Current | | |
| 7¼% Fox Mine Bonds — U.S. | \$ 730,000 | \$ 723,000 |
| Ruttan Mine Series A Bonds — Canadian | | 1,350,000 |
| — U.S. | 1,350,000 | 1,338,000 |
| Series B Bonds — U.S. | 411,000 | 408,000 |
| | | \$3,819,000 |

| | | |
|--|--------------|--------------|
| Long Term | U.S. | Canadian |
| Ruttan Mine Series A Bonds – due 1976 to 1983 – Canadian | | \$21,600,000 |
| Series B Bonds – due 1976 to 1981 – U.S. | \$12,653,000 | 12,594,000 |
| | | 34,194,000 |
| Total First Mortgage Bonds Outstanding | | \$38,013,000 |

7¼% Fox Mine Loan Agreement

Repayment – from Fox Mine copper concentrate production but, otherwise, repayable on or before August 5, 1975.

Ruttan Mine Loan Agreements

Series A Bonds

Interest – variable in relation to the bank prime borrowing rate.

Repayment – in equal quarterly instalments to October 1, 1983.

Series B Bonds

Interest – 8%

Repayment – from Ruttan Mine zinc concentrate production but, otherwise, repayable at a minimum rate of \$2,143,000 U.S. per year to January 14, 1981.

Under the indentures securing the Bonds the Company may not make a dividend distribution which would reduce working capital below \$9,000,000.

8. Income Taxes

The Company follows the tax allocation method of providing for income taxes and continues to reduce taxable income by claiming capital cost allowances and development expenditures in excess of the depreciation and development costs written off against income each year. The difference between the taxes calculated as payable each year and those charged against income on the tax allocation method is accumulated and carried forward in the balance sheet under the heading of Deferred Income Taxes.

9. Pension Plan

During the year the Company made certain revisions to its salaried pension plan which increased the benefits payable to employees. At December 31, 1974 the actuarially computed value of pension benefits under this plan exceed the assets of the pension fund by \$2,100,000. Annual pension costs are determined at regular intervals by independent actuaries, are funded currently and include provision for current service costs and for amortization of past service costs over a period not exceeding fifteen years.

10. Employee Share Purchase Plan

During the year the Company instituted an Employee Share Purchase Plan. Under the plan, eligible employees are entitled to subscribe for shares of the Company and to pay for such shares by payroll deduction over a period of 24 months at a price per share equal to the lesser of the average market price on the original offering date (June 24, 1974) or the average market price on the completion date of purchase. At December 31, 1974 there were outstanding purchase commitments by employees of an aggregate value of \$265,000.

11. Commitments and Guarantees

Ruttan Mine. Development of the underground mine is continuing and production should commence within the next five years. It is estimated that the cost of this development could amount to approximately \$40,000,000.

Lease commitments for capital equipment utilized in the open pit involve payments of approximately \$1,300,000 per year. These leases expire on various dates during 1980 and 1981.

Province of Manitoba. Commencing in 1974, in addition to the payment of normal municipal taxes the Company has agreed to accept assessments of municipal taxes over a period, not to exceed 20 years, sufficient to amortize certain special expenditures by the Province for the development of Leaf Rapids townsite and for certain expenditures incurred on Provincial Highways 391 and 396. These expenditures will amount to about \$5,350,000. The Company has also agreed that its normal municipal taxes, together with the municipal taxes of others in the townsite will, in any event, amortize over 20 years at least \$3,500,000 of other capital expenditures in the townsite.

Guarantees. The Company has guaranteed employee mortgage indebtedness in Lynn Lake and Leaf Rapids townsites amounting to approximately \$6,000,000.

12. Remuneration of Directors and Officers

In 1974 the direct remuneration of directors and senior officers of the Company was \$477,000 (1973 – \$432,000).

Sherritt Gordon Mines Limited

TEN-YEAR RECORD 1965—1974

(figures in thousands)

| Operating Information | 1974 | 1973 | 1972 | 1971 | 1970 |
|---|-----------|---------|--------|---------|--------|
| Ore milled—tons | | | | | |
| Ruttan Mine | 3,358 | 1,871 | — | — | — |
| Fox Mine | 1,008 | 963 | 946 | 1,022 | 389 |
| Lynn Lake | 432 | 676 | 995 | 1,158 | 1,090 |
| Production | | | | | |
| Refinery—Nickel—pounds | 26,172 | 30,262 | 37,321 | 33,111 | 35,918 |
| —Cobalt—pounds | 410 | 616 | 809 | 561 | 803 |
| —Fertilizer—tons | 349 | 362 | 372 | 327 | 280 |
| Recoverable metal in concentrates | | | | | |
| —Copper—pounds | 100,399 | 72,101 | 41,474 | 60,534 | 30,816 |
| —Zinc—pounds | 79,102 | 48,380 | 8,986 | 9,605 | 163 |
| Financial Information | | | | | |
| Revenue from sales | \$192,958 | 124,092 | 72,861 | 73,958 | 90,889 |
| Process licensing and other | \$ 2,128 | 941 | 1,365 | 1,464 | 1,420 |
| Costs and expenses | \$141,934 | 92,128 | 61,517 | 60,798 | 55,760 |
| Depreciation and amortization | \$ 12,571 | 9,234 | 7,563 | 7,852 | 6,048 |
| Income and mining royalty taxes | \$ 17,535 | 2,685 | 55 | (1,995) | 13,000 |
| Net earnings before extraordinary items | \$ 23,046 | 20,986 | 5,091 | 8,767 | 17,501 |
| —per share | \$ 1.81 | 1.65 | .40 | .73 | 1.54 |
| Extraordinary items | \$ — | — | 2,784 | 1,270 | 1,658 |
| Net earnings for the year | \$ 23,046 | 20,986 | 2,307 | 7,497 | 15,843 |
| —per share | \$ 1.81 | 1.65 | .18 | .62 | 1.39 |
| Dividends | \$ 9,555 | 8,918 | 6,370 | 7,231 | 6,818 |
| —per share | \$.75 | .70 | .50 | .60 | .60 |
| Capital expenditures | \$ 14,527 | 20,791 | 30,963 | 11,737 | 12,795 |
| Cash flow from operations | \$ 45,519 | 29,383 | 12,570 | 16,006 | 25,235 |
| Working capital | \$ 36,409 | 24,779 | 27,375 | 28,968 | 19,365 |
| Long-term debt | \$ 34,194 | 41,881 | 36,333 | 13,196 | 17,788 |
| Shareholders' equity | \$103,289 | 89,798 | 77,730 | 81,793 | 65,048 |
| Return on shareholders' equity | 22.3% | 23.4% | 3.0% | 9.2% | 24.4% |
| Ore Reserves | | | | | |
| Ruttan Mine—tons | 45,900 | 49,100 | 51,000 | 51,000 | 51,000 |
| —% copper | 1.45 | 1.46 | 1.47 | 1.47 | 1.47 |
| —% zinc | 1.52 | 1.60 | 1.61 | 1.61 | 1.61 |
| Fox Mine—tons | 10,700 | 11,800 | 13,300 | 14,500 | 13,100 |
| —% copper | 1.95 | 2.03 | 2.01 | 1.99 | 1.84 |
| —% zinc | 2.07 | 2.15 | 2.23 | 2.35 | 2.70 |
| Lynn Lake—tons | * | * | * | 10,000 | 12,600 |
| —% nickel | * | * | * | 0.83 | 0.77 |
| —% copper | * | * | * | 0.39 | 0.38 |

Ruttan Mine and Fox Mine ore reserves contain no allowance for dilution.

Lynn Lake ore reserve contains an allowance for dilution for the years 1965 to 1971. *(No reserve published subsequent to 1971.)



| 1969 | 1968 | 1967 | 1966 | 1965 |
|--------|--------|--------|--------|--------|
| — | — | — | — | — |
| — | — | — | — | — |
| 1,258 | 1,277 | 1,071 | 1,205 | 1,364 |
| 30,028 | 29,598 | 25,080 | 29,522 | 25,790 |
| 668 | 894 | 764 | 791 | 530 |
| 281 | 345 | 331 | 303 | 214 |
| 13,238 | 12,336 | 10,716 | 11,384 | 12,392 |
| — | — | — | — | — |
| 66,292 | 56,754 | 49,375 | 44,307 | 39,311 |
| 932 | 400 | 294 | 55 | (100) |
| 41,765 | 43,699 | 38,893 | 36,122 | 29,397 |
| 6,032 | 5,807 | 5,374 | 4,360 | 4,332 |
| 8,500 | 3,500 | 2,410 | 1,320 | 2,135 |
| 10,927 | 4,148 | 2,992 | 2,560 | 3,347 |
| .96 | .37 | .26 | .23 | .29 |
| — | — | — | — | — |
| 10,927 | 4,148 | 2,992 | 2,560 | 3,347 |
| .96 | .37 | .26 | .23 | .29 |
| 4,545 | 2,841 | 2,273 | 2,273 | 2,270 |
| .40 | .25 | .20 | .20 | .20 |
| 14,715 | 9,831 | 3,006 | 6,419 | 17,581 |
| 19,813 | 12,012 | 11,350 | 8,652 | 9,707 |
| 15,387 | 12,352 | 10,468 | 10,257 | 11,928 |
| 20,039 | 17,556 | 15,173 | 21,232 | 22,394 |
| 56,023 | 49,641 | 48,334 | 47,615 | 47,274 |
| 19.5% | 8.4% | 6.2% | 5.4% | 7.1% |
| 12,900 | — | — | — | — |
| 1.44 | — | — | — | — |
| 2.61 | — | — | — | — |
| 11,300 | 12,269 | 12,269 | 12,269 | 12,269 |
| 1.96 | 1.74 | 1.74 | 1.74 | 1.74 |
| 2.74 | 2.35 | 2.35 | 2.35 | 2.35 |
| 12,600 | 12,600 | 11,900 | 11,400 | 12,600 |
| 0.77 | 0.81 | 0.83 | 0.84 | 0.84 |
| 0.40 | 0.43 | 0.46 | 0.47 | 0.49 |

